

Message Text

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ACTION ARA-10

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AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 1313

INFO AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY PORT OF SPAIN

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

AMCONSUL DHAHRAN

USMISSION OECD PARIS

C O N F I D E N T I A L CARACAS 13269

C O R R E C T E D C O P Y (MRN 13269 VICE 13268)

E.O. 11652: GDS

TAGS: ENRG, PFOR, VE

SUBJECT: OIL NATIONALIZATION - PRICE REMAINS THE ISSUE

REF: CARACAS 12985

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1. BEGIN SUMMARY - THE PETROLEUM INTELLIGENCE WEEKLY ARTICLES

ON TECHNICAL SERVICE AND OIL PURCHASE CONTRACT NEGOTIATIONS APPEAR TO HAVE TRIGGERED THE GOV INTO TAKING A RIGID PUBLIC STAND ON PRICES. THE OIL COMPANIES HAVE AVOIDED PUBLIC COMMENT ON THE NEGOTIATIONS, WITH ONE EXCEPTION. THE MINES MINISTER HAS BEEN CANDID WITH THE PRESS ON THE OIL COMPANY OFFTAKE OFFERS IN RESPONSE TO THE GOV PRICE PROPOSALS. WHILE THE MINES MINISTER IS ATTENDING THE OPEC MEETING, DAILY NEGOTIATIONS ARE CONTINUING BETWEEN THE OIL COMPANIES AND THE GOV PRICE COMMISSION IN AN EFFORT TO REACH A COMPROMISE FORMULA FOR INCREASING THE PROPOSED OFFTAKE LEVEL. NO SUCH AGREEMENT, OR ANNOUNCEMENT OF SUCH AGREEMENT, IS EXPECTED UNTIL THE OIL COMPANIES GAUGE WHAT SUPPORT THE MINES MINISTER BRINGS BACK FROM VIENNA. END SUMMARY.

2. IT NOW APPEARS THAT THE PETROLEUM INTELLIGENCE ARTICLES OF DECEMBER 1 AND 8, WHICH PUBLISHED DETAILS OF THE TECHNICAL SERVICE AND OIL PURCHASE CONTRACT NEGOTIATIONS, HAD THE EFFECT OF MOVING THESE CRUCIAL NEGOTIATIONS INTO A PUBLIC VENUE WHERE THE GOV WAS FORCED TO TAKE A RIGID POSTURE. IT ALSO APPEARS THAT THE GOV MAY HAVE OVER-REACTED TO THE PIW ARTICLES IN DECLARING THAT VENEZUELAN OIL PRICES ARE NOT NEGOTIABLE. THE PIW ARTICLES WERE FACTUALLY REPORTED, BUT WITH ALMOST NO COMMENTARY BY THE SPANISH LANGUAGE PRESS, AND THEIR IMPACT WOULD HAVE BEEN MINIMAL IF THE GOV HAD NOT REACTED.

3. THE OIL COMPANIES HAVE REACTED ACCORDING TO FORM BY MAKING NO PUBLIC STATEMENTS AND SEEKING ANONYMITY. THE ONE EXCEPTION TO THIS WAS A PUBLIC SUGGESTION BY THE VENEZUELAN PRESIDENT OF SHELL OIL THAT REFINERY PRODUCTS COULD BE PRICED ACCORDING TO MARKET CONDITIONS, WHILE CRUDE OIL COULD BE MAINTAINED AT OPEC LEVELS. THEY HAVE GONE TO GROUND, HAVING NO WISH TO DEBATE THE PRICE ISSUE PUBLICLY NOR REVEAL DETAILS OF THEIR TECHNICAL ASSISTANCE CONTRACTS. YET, THE PRESS HAS OIL COMPANY CONTACTS WHO ARE QUOTED AS BEING VERY FIRM IN THEIR OPPOSITION TO PAYING NON-MARKET PRICES FOR POST-NATIONALIZATION VENEZUELAN OIL.

4. MINES MINISTER VALENTIN HERNANDEZ DISPLAYED REMARKABLE
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CANDOR IN ADMITTING TO THE ECONOMIC EDITOR OF EL NACIONAL THAT OIL COMPANY OFFTAKE OFFERS FOR THE BEGINNING OF 1976, IN RESPONSE TO THE PROPOSED GOV PRICES, TOTALED LESS THAN 1.4 MILLION B/D. HOWEVER, HE COVERED THIS ADMISSION WITH A FORECAST THAT VENEZUELA WOULD AVERAGE 2.2 MILLION B/D OVER THE ENTIRE 1976 YEAR, AND AT PRICES ESTABLISHED BY THE GOV. THEN HE DEPARTED FOR THE VIENNA OPEC MEETING WITH THE OBVIOUS PURPOSE IN MIND OF SEEKING SUPPORT FOR

VENEZUELA'S PRICE POLICY.

5. IN THE MINISTER'S ABSENCE, OIL PRICE TALKS ARE CONTINUING BETWEEN THE COMPANIES AND THE GOV. THERE HAVE BEEN RUMORS THAT SOME OIL COMPANIES ARE BEING EXTREMELY HARD-NOSED ABOUT THE PRICES, AND SOME MIGHT DECLINE TO LIFT ANY OIL AFTER NATIONALIZATION. THERE IS NO FIRM EVIDENCE TO SUPPORT THIS VIEW. OIL COMPANY OFFICIALS STRESS THAT THEY WERE NEVER COMMITTED TO MAXIMUM OFFTAKE LEVELS TOTALING 2.36 MILLION B/D MENTIONED BY THE GOV. RATHER, THESE WERE THE MAXIMUMS THEY WOULD LIFT CONTINGENT UPON BEING QUOTED A SATISFACTORY PRICE. WHEN IT DEVELOPED THAT THE PRICE OFFERS WERE HIGHER THAN EXPECTED, THE OIL COMPANIES THEN REASSESSED THEIR OFFTAKE PROPOSALS. THE MINES MINISTER ACKNOWLEDGED THIS WAS WHAT HAPPENED IN HIS PRESS STATEMENT BEFORE THE VIENNA TRIP. SOME COMPANIES HAVE HEDGED BY NOT SPECIFYING A VOLUME OFFTAKE LEVEL AFTER RECEIVING THE PRICE OFFERS. THEY REPLIED WITHIN THE REQUIRED 15 DAY PERIOD BY STATING IN WRITING THAT THE OFFER IS STILL UNDER STUDY.

6. OIL COMPANY CONTACTS, ALTHOUGH RELUCTANT TO GO INTO DETAILS, STATE THAT NEGOTIATIONS ARE CONTINUING ON A DAILY BASIS IN AN EFFORT TO FIND A COMPROMISE ON PRICES. WHAT IS APPARENTLY UNDER CONSIDERATION IS AN ARRANGEMENT WHEREBY THE COMPANIES MIGHT LIFT CRUDE BLENDS AND PRODUCT MIXES THAT COULD BE PRICED TO ALLOW A MARGIN THAT WOULD NOT BE POSSIBLE IF THEY BOUGHT AT THE STRAIGHT CRUDE PRICES OFFERED. THESE SAME CONTACTS STATE THAT NO COMPANY HAS GIVEN UP ON REACHING AN AGREEMENT, BUT THAT IT IS GOING TO BE VERY DIFFICULT TO COMPLETE NEGOTIATIONS BY JANUARY 1.

7. WHILE THE TECHNICAL SERVICE CONTRACTS COULD BE AFFECTED BY THE OFFTAKE NEGOTIATIONS, THE OIL COMPANIES BELIEVE THAT THEY CONFIDENTIAL

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WILL BE NEGOTIATED SEPARATELY IF NECESSARY IN ORDER TO CONCLUDE THEM BY JANUARY 1. THEY BELIEVE THAT THE GOV WILL GO AHEAD WITH THE TECHNICAL SERVICE CONTRACTS AT WHATEVER OFFTAKE LEVEL IS NEGOTIATED SIMPLY BECAUSE THE TECHNICAL SERVICES WILL BE ESSENTIAL TO THE CONTINUED EFFICIENT OPERATION OF THE INDUSTRY.

8. THE DAILY NEGOTIATING SESSIONS HERE IN CARACAS ARE CLEARLY BEING HELD WITH AN EYE COCKED TO VIENNA. WHAT MINES MINISTER VALENTIN HERNANDEZ SAYS, OR DOES NOT SAY, ABOUT OPEC SUPPORT FOR THE VENEZUELAN PRICE ISSUE WILL BE MICROSCOPICALLY STUDIED BY THE OIL COMPANIES TO DETERMINE WHETHER THERE WILL BE ANY GIVE IN THE GOV PRICE OFFER.

9. FROM THE POINT OF VIEW OF ALTERNATIVE SUPPLY SOURCES FOR THE OIL COMPANIES, THE STRETCHING OUT OF THE NEGOTIATIONS

MAY FAVOR THE GOV. MOST ALTERNATIVE SOURCES ARE MUCH FURTHER AWAY FROM THE U.S. MARKET, AND PROGRAMMING SHIPMENTS FROM THE MIDDLE EAST AND AFRICA REQUIRES MORE LEAD TIME THAN DOING SO FROM VENEZUELA.

10. EVEN IF THERE IS A BREAKTHROUGH IN THE PRICE NEGOTIATIONS SHORTLY, WHICH STILL APPEARS DOUBTFUL, APPROVAL OF ANY SUCH AGREEMENT WILL AWAIT THE RETURN OF THE MINES MINISTER, AND POSSIBLY THE MINISTER OF STATE, PEREZ GUERRERO. THUS, WE BELIEVE THE STATUS QUO WILL REMAIN IN EFFECT UNTIL AFTER CHRISTMAS.

11. COMMENT - THE COMPROMISE ARRANGEMENT REFERRED TO IN PARAGRAPH SIX MAY BE A FACE SAVING FORMULA THE COMPANIES PLAN TO OFFER THE GOV. WE DO NOT HAVE ACCESS TO THE DETAILS AND THEREFORE CANNOT EVALUATE HOW CHANGING THE BLENDS AFFECTS THE COMPANY OPERATING MARGINS. END COMMENT
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